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Weekly Commentary, Selected Financial Data, and Business Indicators

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World Trade Is The Key . . .

The "Summit" meeting at Williamsburg serves once again to focus the world's attention on the importance of international trade to global economic recovery. Since the end of World War II the value of the world's merchandise exports has risen in real terms at an average rate of almost seven per cent per year. As global economic integration has developed, an ever larger percentage of GNP in most of the industrial countries of the world has been devoted to exports (see chart). In the decade ending in 1982, for example, exports of goods and services rose from almost 24 per cent of West German nominal GNP to about 34 per cent, while in France they increased from 19 per cent of GDP to 28 per cent. In the United States exports of goods and services rose from over eight per cent in 1973 to 11 per cent in 1982. Other countries both industrial and developing, show similar rates of increase.

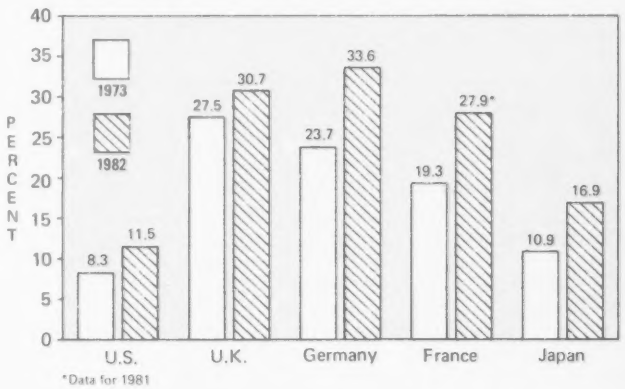
In the past two years, however, global output has fallen as a consequence of the longest and deepest worldwide recession since the 1930s. And, not surprisingly, international trade has deteriorated as well. In 1982 the value of world trade in dollar terms fell by eight per cent, after falling two per cent in 1981. This deterioration was also apparent in real terms. In 1981 the volume of world trade was one per cent below the year before, while in 1982 it declined by four per cent.

In the United States, a comparison of the real change in net exports of goods and services over the past six calendar quarters with the change in the real GNP highlights the impact of falling world trade on our economy. Although net exports (i.e., exports of goods and services less imports of goods and services) amounted to only two per cent of real GNP for the period, the drop in value of net exports accounted for about 70 per cent of the decline in real GNP.

. . . To Global Recovery . . .

What is more, the decline in world trade has coincided with sharp declines in domestic employment. In Germany, merchandise exports (which averaged over 25 per cent of GNP) fell by 3.7 per cent between the fourth quarter 1980 and the fourth quarter 1982. In the same period industrial employment declined by 3.1 per cent. In the United Kingdom, whose merchandise exports exceed 20 per cent of GDP, unemployment is at levels not seen since the Depression of the 1930s. In the other industrial countries of Europe unemployment is at or near record levels for the postwar period. The social and political impact of skyrocketing unemployment has generated strong pressure for raising barriers to the free flow of world trade with the intent of protecting domestic industries and jobs.

GOODS AND SERVICES EXPORTS AS A PERCENT OF GNP/GDP



*Data for 1981

Protectionism has always had a seductive appeal to both employers and workers since it attempts to create a protected and less competitive market. Hence, it has a strong and influential group of advocates cutting across otherwise diverse economic and political lines. Additionally, protectionism is particularly appealing to people in those industries which today are still in difficulty worldwide—automobiles, steel and textiles to name but a few. Further, the strong dollar has increased the cost of U.S. exports in terms of other currencies, thereby reducing our competitiveness. Last year the value of U.S. merchandise exports fell for the first time since 1958.

It is clear that in the arena of world trade where competition, particularly in a recessionary period, is intense, protectionism on the part of any of the

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major trading nations is likely to stimulate a similar response by other nations. In turn, this would lead to a rapid buildup of trade barriers and a sharp decline in world trade. Such a development would risk plunging industrial and developing nations alike back into recession, stultifying economic recovery in the U.S. and Europe—not to mention the developing countries as well.

Fortunately, the world leaders who gathered at Williamsburg last week see the dangers of rising protectionism and appear ready to resist its superficial allure. Further, the fight against protectionism will be strengthened by the growing economic recovery in the United States and the brightening prospects for recovery in Europe and Japan. Although U.S. exports are expected to continue to suffer from the burden of high labor costs and the strong dollar, the increased demand for imports will assist our trading partners in their efforts to stimulate their own economies. It is estimated that each one per cent rise in U.S. output generates about a three per cent boost in merchandise imports.

. . . And U.S. Growth Will Help

This year the U.S. may post a record trade deficit. Estimates run as high as $60 to $70 billion. In the first four months of this year the deficit reached $15.4 billion (exports, f.a.s./imports, c.i.f.); April's deficit was $4.6 billion—the 88th monthly deficit in a row. As the U.S. recovery gains momentum the monthly

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/18/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	148.714	+ 1.748	+ 9.890
Loans to Depository Inst.	1.074	+ .365	+ .108
Float	1.521	– .673	– .230
Total Reserve Bank Credit	159.993	+ .458	+ 9.213
Treasury Deposits with Federal Reserve Banks	3.131	– .681	+ .009
Currency Outside Banks	141.336	+ .971	+11.306
Member Bank Reserves:			
Required	37.764	+ .196	– 1.511
Excess (Deficiency)	.368	– .067	– .072
Total Reserves Held	38.132	+ .129	– 1.583
Net Borrowed Reserves	.096	+ .419	– .019
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.667	– .304	+17.775
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	509.9	+ 13.0‡	+ 11.4‡
M2 (April '83)	2,072.6	+ 12.8	+ 12.9
M3 (April '83)	2,453.7	+ 8.7	+ 10.3
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 5/27/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.15%	8.25%	8.40%
* Federal Agencies	8.60	8.75	9.15
* Project Notes—Taxfree (46% Taxable Equivalent)	8.52	8.80	11.30
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.85	9.15	9.55

‡Finance Company Paper—Prime

5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.50
60- 89 days	8.50
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances

Jun.	8.65%
Jul.	8.65
Aug.	8.70
Sep.	8.70
Oct.	8.75
Nov.	8.70

‡Industrial Paper—Prime

30- 89 days	8.50%
90-120 days	8.63

†Federal Funds Effective Rate 8.55%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,486	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.5	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Apr '83n	7.2%	1.2%	2.4%
Change in Producer Prices*	Apr '83	– 1.2%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons)†	Apr '83	99,458	99,103	99,484
Unemployment as % of Civilian Labor Force†	Apr '83	10.2%	10.3%	9.3%
Personal Income*	Apr '83	$ 2,679	$ 2,659	$ 2,536
Leading Indicators Composite Index (1967=100)†	Mar '83	149.8	147.6	134.7
Industrial Production Index (1967=100) †	Apr '83	142.6	139.7	140.2
Net Change in Consumer Installment Credit†	Mar '83	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Apr '83n	–$ 4.60	–$ 3.63	–$ 0.50
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Apr '83	1,490	1,627	911
New Construction Expenditures*	Mar '83	$ 245.4	$ 249.3	$ 224.6
Total Business Inventories †	Mar '83	$ 502.9	$ 508.5	$ 521.2
Total Business Sales †	Mar '83	$ 346.0	$ 339.8	$ 344.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

trade deficits are expected to increase sharply.

The prospects for a record U.S. trade and current account deficit may cause the dollar to weaken later this year, particularly if interest rates decline. One beneficial effect of a softer dollar will be to make the cost of U.S. exports cheaper in terms of foreign currencies. However, because of the smaller role that U.S. exports play in the composition of U.S. GNP and due to the size of this economy, the U.S. will not benefit from growth abroad as much as other countries will from growth here. A one per cent increase in output by the rest of the world causes only a 1.3 per cent rise in U.S. exports of manufactures.

When the effect on world trade of growth in the United States is compared with the effect of growth elsewhere, the pivotal role of the U.S. economy in global recovery is clear. Although in the past other countries have attempted to be the "locomotive" to pull the rest of the world out of recession, only the United States can fulfill that task. Thus, stable, broadly-based growth in the United States is essential to a resumption of growth abroad.

If U.S. economic recovery is accompanied by monetary and financial policies aimed at reducing the Federal budget deficit, lowering interest rates and bringing the dollar into a more reasonable exchange relationship with other major currencies, then the global recovery will be stronger and more enduring, and the threat of protectionism will recede. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/11/83)	96,539	– 646	–36,847
New York City (5/11/83)	23,639	– 135	–10,827
Commercial Paper (5/11/83)	170,671	– 725	– 5,847*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (5/11/83)	214,345	– 1,988	+ 6,036
New York City (5/11/83)	57,535	– 749	– 1,054

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/11/83)	499,031	– 4,327	+14,064
New York City (5/11/83)	114,132	– 1,964	+ 1,479

Financial Markets

	Friday 5/27/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.86%	+ .26	– 3.19
180-Day Bills†	9.13	+ .30	– 3.42
Longest Bills†	9.34	+ .24	– 3.61
Recent Issues:			
9⅞s 5/31/85 (When Issued)	9.93	NA	
10¼s 3/31/87	10.25	+ .15	
10⅛s 5/15/93	10.67	+ .05	
10⅜s 11/15/12	10.85	+ .08	
Municipals:			
Bond Buyer–20 Bond Index* (5/26/83)	9.51%	+ .22	– 1.98
Blue List Total ($ Million)	$1,498	+ $ 22	+ $ 314
30-Day Visible Supply ($ Million)	$3,344	– $970	+ $1,600
Total	$4,842	– $948	+ $1,914
Corporates:			
Moody's Aa Composite (5/26/83)	12.19%	+ .16	– 2.57
30-Day Visible Supply ($ Million)	$ 760	– $355	– $1,080
Stocks:			
Dow-Jones Averages:			
Industrials	1,216.14	+ 26.22	+ 396.60
Transportation	545.10	+ 5.48	+ 224.96
Utilities	130.12	+ 1.24	+ 19.03
65 Stocks	478.03	+ 7.91	+ 158.33
Standard and Poor's 500 Stocks	164.46	+ 2.32	+ 52.58
N.Y.S.E. Composite Index	95.23	+ 1.52	+ 30.69
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,462	+14,966	+ 52,920

* 46% Taxable equivalent 17.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/27/83	Week Ago
Overnight	8.63%	8.75%
1 month	9.00	8.94
3 month	9.31	9.13
6 month	9.50	9.25
1 year	9.69	9.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.15%	10.95%
Long Term (7 to 15 yrs.)	11.25	11.05

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/27/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01997	50.08
Canada	.8118	1.2319
Denmark	.1115	8.9650
France	.1329	7.5225
Germany	.3986	2.5090
Italy	.0006720	1488.00
Japan	.004206	237.78
Mexico	.006667	150.00
Netherlands	.3544	2.8215
Switzerland	.4800	2.0835
U.K.	1.6035	.6236